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Key Provisions in S. 300, "Patients' Bill of Rights — Plus"

MSAs, FSAs, and Deductibility Deliver Greater Access and *Real* Patient Protection

In contrast to Senate Democrats' highly regulatory "KennedyCare" bill (S. 6), the Republican "Patients' Bill of Rights — Plus" (S. 300) gives more Americans access to quality health coverage because it addresses the primary cause of rising costs and bureaucratic control: the federal tax code.

The tax-preferred status of employer-purchased health insurance gives patients a discount on their medical care, but *only* if they pay for medical care through insurance and buy health insurance through their employer. This unfair bias puts insurance companies between patients and their doctors and discriminates against the self-employed and those who don't get health insurance on the job. The "Patients' Bill of Rights — Plus" corrects this tax bias in three ways:

1. It makes medical savings accounts (MSAs) available to all Americans.
2. It allows a \$500 annual "carry over" in flexible spending accounts (FSAs).
3. It grants full deductibility of health insurance costs to the self-employed.

These reforms are crucial to making health care more affordable and protecting patients' rights. Unlike mandates, they put *patients* first — not government bureaucrats, not insurance companies, not employers, doctors, or lawyers, but patients.

1) Expanding Medical Savings Accounts

Medical savings accounts combine a tax-preferred savings account and a high-deductible health insurance policy. Individuals deposit pre-tax money into the MSA, which they then use to pay routine medical bills. The high-deductible policy covers them against catastrophic expenses. MSAs give the same tax-based discount on medical care *without letting bureaucrats second-guess patients' choice of doctor or treatment*. Likewise, MSAs extract employers from patients' medical decisions. MSAs have already helped reduce the number of uninsured Americans. Every third participant in the MSA pilot program enacted by the Health Insurance Portability and Accountability Act of 1996 (HIPAA) had no health coverage before purchasing an MSA. The "Patients' Bill of

Rights — Plus” expands this program by making MSAs available to all Americans, regardless of their employment status.

2) Expanding Flexible Spending Accounts

Expanding flexible spending accounts (FSAs) also will provide greater patient protection. At the beginning of each year, participants set aside pre-tax income in an FSA, from which they pay their medical bills without any bureaucratic oversight. Like MSAs, FSAs allow patients to choose their own doctor. If a participant has money left over in his FSA at year's end, he must “use it or lose it.” As a result, participants may purchase less-than-essential medical care when they would be better off saving those funds for future medical needs. The “Patients’ Bill of Rights — Plus” allows participants to keep the unused balance in their FSA, up to \$500 per year. This “carry-over” provision will allow many Americans to build up a reserve to cover medical expenses and eliminate bureaucratic interference in their medical decisions. “Carry-over” funds can also be deposited into an IRA, a 401(k) retirement plan, or an MSA. More than half of all full-time employees in large and medium-sized firms are eligible for FSAs. This expansion will give them more health care choices, including the ability to choose their own doctor.

3) Full Deductibility of Health Insurance for the Self-Employed

More than 25 million Americans live in families headed by a self-employed individual. The self-employed now may deduct only 60 percent of their health insurance costs from their taxable income, increasing to 100 percent in 2003. The “Patients’ Bill of Rights — Plus” would accelerate this deduction, allowing all self-employed individuals to deduct 100 percent of their health insurance costs starting in 2000. Full deductibility for the self-employed will enable more Americans to afford insurance and give individuals greater control over their health care.

Note on a Related Bill: Last month, Health, Education, Labor and Pensions (HELP) Committee Chairman Jeffords and eight other committee Republicans introduced S. 326, comprised of the non-tax regulatory elements of S. 300. This bill will allow the HELP Committee to work on S. 300's non-tax provisions while the Finance Committee works to bring MSAs, FSAs and self-employed deductibility to the floor. All HELP committee cosponsors of S. 326 remain committed to enacting all provisions of the “Patients’ Bill of Rights— Plus,” including MSAs, FSAs, and self-employed deductibility.

Patient protection can be achieved only by putting patients in control of their health care spending. The federal tax code has put bureaucrats and employers between patients and their doctors. Republicans are working to extract them.

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